



VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

interim report

For the six months ended 30th September 2003

At Vanda, we deliver

INTERIM RESULTS

The Board of Directors (the "Directors") of Vanda Systems & Communications Holdings Limited (the "Company") announced the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2003 which have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited) Six months ended 30th September,	
		2003	2002
	Notes	HK\$'000	HK\$'000
Turnover:			
Continuing operations		420,990	476,993
Discontinued operations	6	–	168
		420,990	477,161
Cost of sales		(353,563)	(393,242)
Gross profit		67,427	83,919
Other revenue and gains		3,417	7,014
Selling and distribution costs		(10,701)	(16,155)
Administrative expenses		(69,129)	(72,307)
Other operating expenses:			
Provisions for and write-off of bad and doubtful debts		(4,027)	(4,277)
Loss on disposal of subsidiaries		–	(1,941)
Impairment of a long term investment		(3,700)	–
Unrealised holding losses on other investments		(3,266)	–
Impairment on leasehold land and buildings		(12,161)	–
Provision for loss on put option		(1,500)	–
Other expenses		(2,110)	(1,741)
Loss from operating activities:	2		
Continuing operations		(35,750)	(5,165)
Discontinued operations	6	–	(323)
		(35,750)	(5,488)
Finance costs		(7,744)	(9,781)
Share of profits and losses of associates		67	312
Loss before tax		(43,427)	(14,957)
Tax	3	(12,013)	(1,965)
Loss before minority interests		(55,440)	(16,922)
Minority interests		(145)	(347)
Net loss from ordinary activities attributable to shareholders		(55,585)	(17,269)
Loss per share	4		
Basic		(9.39 cents)	(4.10 cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30th September, 2003	(Audited) 31st March, 2003
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Fixed assets		40,487	54,858
Investment properties		30,300	30,300
Interests in associates		3,591	3,524
Long term investments		–	3,700
Other investments		–	3,511
		<u>74,378</u>	<u>95,893</u>
CURRENT ASSETS			
Accounts receivable	7	187,636	270,300
Inventories		42,027	39,847
Tax recoverable		3,142	3
Prepayments, deposits and other receivables		30,931	28,983
Pledged bank deposits		58,172	62,112
Cash and cash equivalents		88,231	108,160
		<u>410,139</u>	<u>509,405</u>
CURRENT LIABILITIES			
Accounts payable	8	124,223	171,736
Deposits received, accruals and other payables		171,293	167,741
Provisions for product maintenance costs and loss on put option		24,197	22,697
Tax payable		13,324	3,242
Finance lease payable		38	36
Interest-bearing bank loans, overdrafts and supplier loans		57,536	88,254
		<u>390,611</u>	<u>453,706</u>
NET CURRENT ASSETS		<u>19,528</u>	<u>55,699</u>

	(Unaudited) 30th September, 2003	(Audited) 31st March, 2003
Notes	HK\$'000	HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	93,906	151,592
NON-CURRENT LIABILITIES		
Provisions for product maintenance costs	1,881	1,690
Finance lease payable	141	159
Interest-bearing bank loans, overdrafts and supplier loans	2,458	3,449
Deferred tax	261	261
	<u>4,741</u>	<u>5,559</u>
	<u>89,165</u>	<u>146,033</u>
CAPITAL AND RESERVES		
Issued capital	9 153,638	42,161
Reserves	<u>(75,592)</u>	<u>(241,534)</u>
	78,046	(199,373)
MINORITY INTERESTS	<u>11,119</u>	<u>10,974</u>
	89,165	(188,399)
CONVERTIBLE BONDS	<u>–</u>	<u>334,432</u>
	<u>89,165</u>	<u>146,033</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September, 2003*

	(Unaudited)	
	Six months ended	
	30th September,	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	25,463	(11,314)
Net cash inflow/(outflow) from investing activities	2,065	(11,490)
Net cash outflow from financing activities	(50,054)	(1,817)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(22,526)	(24,621)
Cash and cash equivalent at beginning of period	108,160	116,656
Effect of foreign exchange rate changes	2	479
	<hr/>	<hr/>
Cash and cash equivalent at end of period	85,636	92,514
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Cash, bank balances and non-pledged bank deposits	73,082	92,514
Non-pledged time deposits with original maturity of less than three months when acquired	15,149	–
	<hr/>	<hr/>
Bank overdrafts	88,231	92,514
	(2,595)	–
	<hr/>	<hr/>
	85,636	92,514
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2003

	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	(Unaudited) Fixed asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group							
At 1st April, 2003	42,161	307,937	2,040	2,828	(13,174)	(541,165)	(199,373)
Conversion of convertible bonds	111,477	222,955	-	-	-	-	334,432
Share issuing expenses in relation to conversion of convertible bonds	-	(1,430)	-	-	-	-	(1,430)
Exchange differences on consolidation of overseas subsidiaries	-	-	-	-	2	-	2
Net gains not recognised in the profit and loss account	-	-	-	-	2	-	2
Net loss from ordinary activities attributable to shareholders	-	-	-	-	-	(55,585)	(55,585)
At 30th September, 2003	<u>153,638</u>	<u>529,462</u>	<u>2,040</u>	<u>2,828</u>	<u>(13,172)</u>	<u>(596,750)</u>	<u>78,046</u>

For the six months ended 30th September, 2002

	Issued Capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	(Unaudited) Fixed asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group							
At 1st April, 2002	42,098	307,586	2,040	2,828	(12,904)	(372,286)	(30,638)
Exercise of options	63	382	-	-	-	-	445
Exchange differences on consolidation of overseas subsidiaries	-	-	-	-	479	-	479
Net gains not recognised in the profit and loss account	-	-	-	-	479	-	479
Goodwill released upon disposal of subsidiaries	-	-	-	-	-	4,937	4,937
Net loss from ordinary activities attributable to shareholders	-	-	-	-	-	(17,269)	(17,269)
At 30th September, 2002	<u>42,161</u>	<u>307,968</u>	<u>2,040</u>	<u>2,828</u>	<u>(12,425)</u>	<u>(384,618)</u>	<u>(42,046)</u>

Notes:

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis used in the preparation of these interim financial statements are the same as those adopted in the Group's annual financial statements for the year ended 31st March, 2003, except that the Group has adopted the revised SSAP No. 12 "Income taxes", which was effective for accounting periods commencing on or after 1st January, 2003.

Revised SSAP No. 12 prescribes the accounting for income taxes payable or receivable arising from the taxable profit or loss for the current period, and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses. The adoption of this revised SSAP has had no material impact on the reported financial positions or results of the Group for the period under review and the prior period.

2. LOSS FROM OPERATING ACTIVITIES

(Unaudited)	
Six months ended	
30th September,	
2003	2002
HK\$'000	HK\$'000

This is arrived at after charging/(crediting):

Depreciation	4,741	6,879
Interest on:		
Bank loans, overdrafts and supplier loans wholly repayable within five years	2,017	3,001
Finance lease payable	10	–
Convertible bonds	5,717	6,780
Provisions for and write-off of bad and doubtful debts	4,027	4,277
Cost of inventories sold	332,394	377,604
Loss on disposal of subsidiaries	–	1,941
Impairment of a long term investment	3,700	–
Unrealised holding losses on other investments	3,266	–
Impairment on leasehold land and buildings	12,161	–
Write back of provisions against inventories*	(2,305)	(6,777)
Interest income	(690)	(2,248)
	<u> </u>	<u> </u>

* Amounts included in cost of inventories sold

3. TAX

	(Unaudited)	
	Six months ended	
	30th September,	
	2003	2002
	HK\$'000	HK\$'000
Profits tax charged for the period		
– Outside Hong Kong	2,177	1,862
Profits tax charged for prior periods		
– Outside Hong Kong	<u>9,836</u>	–
	12,013	1,862
Deferred tax	<u>–</u>	<u>103</u>
	<u>12,013</u>	<u>1,965</u>

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the current and prior period.

Tax on the profits of the Company and its subsidiaries operating outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions of their operations based on existing legislation, interpretations and practices in respect thereof.

4. LOSS PER SHARE

The calculation of the basic loss per share for the period is based on the net loss from ordinary activities attributable to shareholders of HK\$55,585,000 (2002: HK\$17,269,000) and the weighted average of 592,173,426 (2002: 421,461,735) ordinary shares in issue during the period.

Diluted loss per share amounts for the current and prior periods have not been shown because the potential ordinary shares of the Group outstanding during both periods had an anti-dilutive effect on the basic loss per share for both periods.

5. SEGMENT INFORMATION

An analysis of Group's turnover and operating profit/(loss) by geographical segments and business segments, respectively, is as follows:

By geographical segments:

	Hong Kong and Macau		Mainland China		South Asia		Corporate		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30th September,		30th September,		30th September,		30th September,		30th September,	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)										
Segment revenue:										
Sales to external customers	62,038	65,422	152,631	203,116	205,887	208,623	434	-	420,990	477,161
Other revenue	245	24	1,365	1,412	867	3,109	250	1,497	2,727	6,042
Total	<u>62,283</u>	<u>65,446</u>	<u>153,996</u>	<u>204,528</u>	<u>206,754</u>	<u>211,732</u>	<u>684</u>	<u>1,497</u>	<u>423,717</u>	<u>483,203</u>
Segment results	<u>1,542</u>	<u>1,746</u>	<u>(10,102)</u>	<u>(6,133)</u>	<u>3,453</u>	<u>14,654</u>	<u>(22,867)</u>	<u>(14,786)</u>	<u>(27,974)</u>	<u>(4,519)</u>
Unallocated interest and other gains									690	972
Impairment of a long term investment									(3,700)	-
Unrealised holding losses on other investments									(3,266)	-
Provision for loss on put option									(1,500)	-
Loss on disposal of subsidiaries									-	(1,941)
Loss from operating activities									<u>(35,750)</u>	<u>(5,488)</u>

By business segments:

	Systems integration and application solution services		Infrastructure solutions		(Discontinued operations-note 6) e-business		Corporate		Consolidated	
	Six months ended 30th September, 2003		Six months ended 30th September, 2002		Six months ended 30th September, 2003		Six months ended 30th September, 2002		Six months ended 30th September, 2003	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)										
Segment revenue:										
Sales to external customers	<u>247,973</u>	<u>306,357</u>	<u>173,017</u>	<u>170,636</u>	<u>-</u>	<u>168</u>	<u>-</u>	<u>-</u>	<u>420,990</u>	<u>477,161</u>
Segment results	<u>(11,542)</u>	<u>(1,754)</u>	<u>6,071</u>	<u>12,343</u>	<u>-</u>	<u>(323)</u>	<u>(22,503)</u>	<u>(14,785)</u>	<u>(27,974)</u>	<u>(4,519)</u>

6. DISCONTINUED OPERATIONS

On 29th April, 2002, the Group disposed of its 75.1% equity interest in DigiLogistics.com Limited ("DigiLogistics"), which was a 95% owned subsidiary of the Group prior to the disposal. The Group's business of sub-licensing web-based logistics software (the "e-business") in Hong Kong was conducted through DigiLogistics. The disposal was made following the Group's strategy to divest its non-core businesses. The disposal was completed on 29th April, 2002 and since then DigiLogistics ceased to be a subsidiary of the Group. The results, assets and liabilities of DigiLogistics were consolidated into the Group's financial statements up to the date of the disposal.

7. ACCOUNTS RECEIVABLE

	(Unaudited) 30th September, 2003 HK\$'000	(Audited) 31st March, 2003 HK\$'000
Current to 30 days	110,484	181,221
31 to 90 days	65,947	41,174
Over 90 days	11,205	47,905
	<u>187,636</u>	<u>270,300</u>

The credit terms granted to the customers vary, and are generally based on the result of a credit evaluation of the individual customer carried out by the Group, which includes an evaluation of the credit risk and financial strengths of the customer.

8. ACCOUNTS PAYABLE

	(Unaudited) 30th September, 2003 HK\$'000	(Audited) 31st March, 2003 HK\$'000
Current to 30 days	97,273	146,402
31 to 90 days	12,014	7,677
Over 90 days	14,936	17,657
	<u>124,223</u>	<u>171,736</u>

9. ISSUED CAPITAL

During the six months ended 30th September, 2003, the bondholders of the Company's convertible bonds served notices to the Company requesting the conversion of bond principal in the total amount of HK\$334,431,638 into new ordinary shares in the Company at the conversion price of HK\$0.30 each. As a result, a total of 1,114,772,126 ordinary shares of HK\$0.10 each of the Company were issued and allotted upon the full conversion of the convertible bonds.

10. RELATED PARTY TRANSACTIONS

During the six months ended 30th September, 2003, there are no other material related party transactions other than the granting of a loan of S\$1.5 million and the provision of guarantees by the Company to certain non-wholly owned subsidiaries which were disclosed in the Company's annual report for the year ended 31st March, 2003.

11. CAPITAL COMMITMENT

As at 30th September, 2003, there was no significant capital commitment of the Group.

12. CONTINGENT LIABILITIES

As at 30th September, 2003, contingent liabilities of the Group not provided for in the financial statements were as follows:

	(Unaudited) 30th September, 2003 HK\$'000	(Audited) 31st March, 2003 HK\$'000
Guarantees given to banks in connection with bank guarantees provided by banks	<u>10,438</u>	<u>25,842</u>

The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), with an estimated maximum possible amount of HK\$3,442,000 as at 30th September, 2003 (31st March, 2003: HK\$3,832,000).

13. PLEDGE OF ASSETS

As at 30th September, 2003, other than the pledged deposits which were disclosed on the condensed consolidated balance sheet and the release of the charge of an investment property with a net book value of HK\$20,000,000, there was no material changes in the pledged assets of the Group from the information disclosed in the Group's annual report for the year ended 31st March, 2003.

14. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

15. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 29th December, 2003.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2003 (2002: Nil).

BUSINESS REVIEW

The first half-year of 2003 has been a very challenging period for the Group. The outbreak of the Severe Acute Respiratory Syndromes (SARS) and a slow economy in our operating regions have affected the Group's overall income revenue and earnings.

For the six months ended 30th September, 2003, the Group's total turnover decreased by 11.8% to HK\$420,990,000 as compared with the same period of the last year (2002: HK\$477,161,000). Net loss from ordinary activities attributable to shareholders is HK\$55,585,000 (2002: HK\$17,269,000). Basic loss per share for this interim period is HK\$0.0939 (2002: HK\$0.0410).

In line with the Group's continued efforts in adopting stringent accounting measures, the Group has made a number of non-cash provisions including provision of bad and doubtful debts, provision for impairment of a long-term investment and leasehold land and buildings, and unrealised holding losses on other investments, totaling HK\$23,154,000.

Systems Integration and Application Solution Services

Amid the weak economy in Hong Kong and Southeast Asia coupled with the adverse effects of SARS and the slow down of overall IT spending in the PRC market, the Group's systems integration and application solution business were affected in the first half of 2003. Turnover from systems integration and application solution services business declined 19.1% as compared to the corresponding period last year to HK\$247,973,000, accounting for 58.9% of the Group's total turnover (2002: HK\$306,357,000). The Group recorded a segment loss of HK\$11,542,000 from this operation (2002: HK\$1,754,000).

Nevertheless, we see increasing demand in IT services particularly from maintenance, security, storage and systems management. We are pleased to report that our operations have made significant progress in these arenas. As such, our revenue from IT services has reported growth as compared to last corresponding period. This is an encouraging result as the Group drives towards building competency in transforming our business portfolio to create value and sustainable profit growth.

During the period, the Group continued to build strong relationship with international technologies vendors. Our PRC operation forged strategic alliance with Business Object (BO), the world's leading business intelligence tools provider. Our software team was able to utilize BO's powerful data analysis system and developed a series of Business Intelligence solutions, catering for the China banking and taxation industry. These applications have since been successfully deployed to our customers including Zhejiang Rural Credit Cooperative Union and Tianjin Taxation Bureau. The Group also worked closely with renowned business solution provider, Misys International Banking Systems Limited to jointly develop international business solutions for the domestic banking market in Mainland China.

To further expand our service to our banking clients in Mainland China, the Group signed an exclusive agreement with KEBA, a leading automation machinery and solution provider based in Austria, to market self-service banking products in the PRC including KEBA's ATM (Automatic Teller Machine) products, after-sales services and application solutions services.

Despite a difficult operating environment, our PRC operation has successfully concluded a number of noteworthy contracts awarded by customers in the banking and finance as well as the government sectors. These included the Headquarters Payment System Project for the People's Bank of China; Network and Integration Project for Beijing Data Centre of the China Foreign Exchange, New Generation Integrated Business System for Kunming City Commercial Bank and Core Insurance System for Heng An Standard Life Insurance Co.

In Hong Kong and Singapore, during the period under review, the Group has secured numerous contracts from enterprises to provide systems integration services. They included Sony Music, Textwood and Asia Television Limited in Hong Kong, as well as SingTel and Union Overseas Bank in Singapore.

Infrastructure Solutions

During the period, despite adverse effect of the SARS and a weak economy in South Asia, our distribution business in the region has reported a moderate growth of approximately 1.4% to HK\$173,017,000 (2002: HK\$170,636,000), contributing approximately 41.1% of the Group's total turnover. The infrastructure solution business recorded a segment profit of HK\$6,071,000 (2002: HK\$12,343,000).

The Group is pleased to report that our distribution arm, Azure Technologies in Singapore and the Philippines, were able to secure contracts with several major clients. They included Unilever in Singapore, as well as International Exchange Bank and Super Value Inc. in the Philippines.

In line with the Group's strategic road map to transform the Group into a solutions-based IT service provider, earlier in the year, we have formed a new business entity "Vanda InnovAsia". The new company comprises a team of IT professionals with deep domain skill in banking applications. This team will focus on business applications and provide a wide spectrum of IT services from consulting, software and application development to systems infrastructure and outsourcing.

LIQUIDITY AND CAPITAL RESOURCES

On 3rd September, 2003, Hutchison International Limited ("Hutchison") and DBS Nominees Private Limited ("DBS Private Equity") fully exercised their conversion rights attaching to the convertible bonds issued by the Company at the conversion price of HK\$0.30 per share according to the Amendment Agreements approved in the special general meeting held on 29th August, 2003.

As at 30th September, 2003, the Group's total bank balances and bank deposits (including pledged bank deposits) amounted to HK\$146,403,000 (31st March, 2003: HK\$170,272,000) and the Group's interest-bearing bank and other borrowings was HK\$59,994,000 (31st March, 2003 (excluding convertible bonds): HK\$91,703,000). HK\$57,536,000 of the amounts of the interest-bearing bank and other borrowings were repayable within one year and the remaining portion were repayable within a period of 2 to 5 years.

As at 30th September, 2003, gearing ratio has not been shown as the Group is in a net cash position. As at 30th September, 2002, gearing ratio had not been shown as the Group recorded a net deficiency in assets position.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 659 employees as at 30th September, 2003 (30th September, 2002: 639 employees). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include a medical scheme, provident fund and share option schemes.

PROSPECTS

With Hutchison and DBS Private Equity becoming our major shareholders, the Group is now in a much stronger position with a clean balance sheet, positive net asset value and revenue growth potential. The Group has recently entered into agreements with Hutchison 3G UK Ltd. and Hutchison Whampoa IT Services S.à.r.l., both are subsidiaries of Hutchison, to set out the basis upon which certain computer software application services may be provided by the Group upon their request. Such co-operation with Hutchison will provide opportunities for the Group to enhance its revenue growth.

Looking ahead, we believe that the macro environment will remain challenging. Hardware profit margin will continue to experience downward pressure and drop further as competition intensified. However, we believe that the Group will benefit from customers' demand shift from hardware centric to service-driven IT market where the Group is already gaining presence.

The Group regards building our IT service capabilities and business as our top priority and the way forward. Every effort will be made to accelerate our revenue portfolio transformation by aggressively building our business towards applications solutions to opt for higher profit margin. Internally, the Group will continue to adopt cost control measures in line with its business across the region.

With the strong support and commitments from our major shareholders together with our solid business base in China and Asean, we endeavor to drive business growth and transformation, manage costs and deliver tangible value for our clients and our shareholders.

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

On 19th September, 2002, the Company, New Tech & Telecom Investment Limited ("NT&T"), an investee in which the Group holds 9.1% interest, and South China Communication Holdings Limited, the majority shareholder of NT&T, entered into an agreement pursuant to which: (i) NT&T extended the maturity date of the original 2-year HK\$30,000,000 convertible bonds issued on 19th September, 2000 to 18th September, 2006 and (ii) NT&T issued new convertible bonds to the Group, which also mature on 18th September, 2006, to settle the interests payable to the Group of HK\$1,800,000 on 19th September, 2002. The interest rate of the convertible bonds of NT&T is 4% per annum for the period from 19th September, 2002 to 18th September, 2004, both days inclusive and 4% or the best lending rate (as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time) less 1.125% per annum, whichever is the higher for the period from 19th September, 2004 to 18th September, 2006, both days inclusive.

NT&T is an independent third party not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

As at 30th September, 2003, the outstanding convertible bonds issued by NT&T and held by the Group amounted to HK\$31,800,000.

DISCLOSURE OF INTERESTS

Directors' interests and short positions in the securities of the Company and its associated corporations

As at 30th September, 2003, the interests and short positions of the Directors in the equity or debt securities of the Company and any associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in the Company's shares

Name of Director	Personal	Number of Shares held		Total	% to total issued share capital
		Family	Corporate		
Lam Hon Nam	400,000	–	127,226,000	127,626,000	8.31%
			(Note 1)		

Note 1: The above 127,226,000 Shares are held by Lam Ma & Wai Limited, a company incorporated in the British Virgin Islands, which is owned as to 45.94%, 45.46% and 8.60% by Mr. Lam Hon Nam, Mr. Ma Chun Kwong, Edmund and Mr. Wai Yee Jan, respectively.

(b) Interests in the shares of associated corporations

Name of company	Name of Director	Number of non-voting deferred shares held/ Percentage of equity interest held – Personal interest	% to total issued share capital
Vanda Computer & Equipment Company Limited	Lam Hon Nam	918,800	45.94%
Vanda Instrument & Equipment Company Limited	Lam Hon Nam	229,700	45.94%
Janeper Development Limited	Lam Hon Nam	150,000	50%

Save as disclosed above and other than certain nominee shares in subsidiaries held by Directors in trust for the Company at 30th September, 2003, none of the Directors had interests or short positions in any equity or debt securities of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Share options and Directors' rights to acquire shares

(a) 1995 Option Scheme

Pursuant to an ordinary resolution passed on 22nd March, 1995, a share option scheme ("1995 Option Scheme") was adopted whereby the directors of the Company, at their discretion, are authorized to invite any employee or executive director of the Company or any of its subsidiaries to take up options to subscribe for shares not exceeding 10% of the issued share capital of the Company. The 1995 Option Scheme was terminated on 2nd April, 2002 and no further options will be offered under the scheme but the scheme will in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted pursuant thereto.

Particulars of the outstanding share options under the 1995 Option Scheme during the period are as follows:

Name or category of participant	Date of grant of share options	Number of share options held at 1st April, 2003	Expired during the period	Number of share options held at 30th September, 2003	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares at grant date of options*** HK\$
Directors							
Lam Hon Nam	23.11.1999	1,500,000	1,500,000	–	23.2.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	1,000,000	13.1.2001 to 12.1.2004	2.20	2.75
	2.5.2001	800,000	–	800,000	2.11.2001 to 1.11.2004	0.81	1.02
Ma Chun Kwong, Edmund (Note 1)	23.11.1999	750,000	750,000	–	23.2.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	1,000,000	13.1.2001 to 12.1.2004	2.20	2.75
	2.5.2001	800,000	–	800,000	2.11.2001 to 1.11.2004	0.81	1.02
Wai Yee Jan (Note 1)	23.11.1999	750,000	750,000	–	23.2.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	1,000,000	13.1.2001 to 12.1.2004	2.20	2.75
	2.5.2001	600,000	–	600,000	2.11.2001 to 1.11.2004	0.81	1.02
Ching Wan Kwan (Note 1)	23.11.1999	650,000	650,000	–	23.2.2000 to 22.5.2003	0.87	1.21
	12.7.2000	500,000	–	500,000	17.1.2001 to 16.1.2004	2.20	2.75
	2.5.2001	400,000	–	400,000	2.11.2001 to 1.11.2004	0.81	1.02
		<u>9,750,000</u>	<u>3,650,000</u>	<u>6,100,000</u>			
Other employees							
In aggregate	23.11.1999	1,350,000	1,350,000	–	23.2.2000 to 22.5.2003	0.87	1.21
	23.2.2000	140,000	140,000	–	23.8.2000 to 22.8.2003	4.05	7.95
	12.7.2000	1,620,000	500,000	1,120,000	12.1.2001 to 11.1.2004	2.20	2.75
	2.5.2001	1,964,000	442,000	1,522,000	2.11.2001 to 1.11.2004	0.81	1.02
		<u>5,074,000</u>	<u>2,432,000</u>	<u>2,642,000</u>			
Total		<u>14,824,000</u>	<u>6,082,000</u>	<u>8,742,000</u>			

Note 1: Mr. Ma Chun Kwong, Edmund, Mr. Wai Yee Jan and Ms. Ching Wan Kwan resigned as Director of the Company with effect from 3rd September, 2003.

The options are exercisable for a period of three years commencing on the expiry of six months after the date on which the option is accepted, provided that no options can be exercised after 21st March, 2005.

The vesting period of the above outstanding share options is from the date of the grant until the commencement of the exercise period and only 50% of the options can be exercised within the first year from the date on which the options are accepted.

** The exercise price of the share options is subject to adjustment, in accordance with the provisions of the share option scheme, in the event of an alteration in the capital structure of the Company.

*** The price of the shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

(b) 2002 Option Scheme

Pursuant to an ordinary resolution passed on 2nd April, 2002, a share option scheme ("2002 Option Scheme") was adopted whereby the directors of the Company, at their discretion, are authorized to invite eligible participants to take up options to subscribe for shares not exceeding 10% of the issued share capital of the Company at the date of approval of the limit by the Company in general meeting. The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the 2002 Option Scheme and any other share option schemes must not in aggregate exceed 30% of the shares in issue from time to time.

Particulars of the outstanding share options under the 2002 Option Scheme during the period are as follows:

Name or category of participant	Date of grant of share options	Number of share options held at 1st April, 2003	Granted during the period	Expired during the period	Number of share options held at 30th September, 2003	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares at grant date of options*** HK\$
Directors								
Loh Tiak Koon	2.4.2002	20,000,000	-	-	20,000,000	3.4.2003 to 2.4.2006	0.886	0.88
Ching Wan Kwan (Note 1)	2.5.2002	3,000,000	-	-	3,000,000	2.5.2003 to 1.5.2006	0.94	0.93
		<u>23,000,000</u>	<u>-</u>	<u>-</u>	<u>23,000,000</u>			
Other employees								
In aggregate	2.5.2002	9,600,000	-	2,000,000	7,600,000	2.5.2003 to 1.5.2006	0.94	0.93
	2.5.2003	-	7,250,000	-	7,250,000	2.5.2004 to 1.5.2007	0.34	0.315
	16.5.2003	-	5,500,000	-	5,500,000	16.5.2004 to 15.5.2007	0.41	0.41
		<u>9,600,000</u>	<u>12,750,000</u>	<u>2,000,000</u>	<u>20,350,000</u>			
Total		<u>32,600,000</u>	<u>12,750,000</u>	<u>2,000,000</u>	<u>43,350,000</u>			

Note 1: Ms. Ching Wan Kwan resigned as Director of the Company with effect from 3rd September, 2003.

The options are exercisable, subject to the vesting scale, commencing on the date on which the options are accepted to the earlier of the options lapses and the date falling four years from the date of grant of the options. One third of the option are vested on the first anniversary of the date of grant and one-thirty sixth of which are vested equally on a monthly basis thereafter.

No value in respect of the share options granted during the period has been charged to the profit and loss account.

Substantial shareholders

As at 30th September, 2003, so far as is known to the Directors or chief executive of the Company, the following persons had an interest or short position in the equity or debts securities of the Company and any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group or had any options in respect of such capital:—

Name of Shareholder	Capacity	Number of Shares interested in	% of shareholding in the Company
Substantial shareholders:			
Hutchison International Limited ("Hutchison")	Beneficial owner	569,888,793 (Note 1)	37.09%
Hutchison Whampoa Limited ("HWL")	Interest of a controlled corporation	569,888,793 (Note 1)	37.09%
Cheung Kong (Holdings) Limited ("CKH")	Interest of controlled corporation	569,888,793 (Note 1)	37.09%
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	569,888,793 (Note 2)	37.09%
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee and beneficiary of a trust	569,888,793 (Note 3)	37.09%
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee and beneficiary of a trust	569,888,793 (Note 3)	37.09%
Li Ka-shing ("Mr. Li")	Founder of discretionary trusts and interest of controlled corporations	569,888,793 (Note 4)	37.09%
DBS Bank Ltd.	Beneficial owner	394,883,333 (Note 5)	25.70%
DBS Group Holdings Limited	Interest of a controlled corporation	394,883,333 (Note 5)	25.70%
Other person:			
Lam Ma & Wai Limited	Beneficial owner	127,226,000	8.28%

Notes:

- (1) Hutchison is a wholly owned subsidiary of HWL. By virtue of the SFO, HWL is deemed to be interested in the 569,888,793 Shares held by Hutchison. Certain subsidiaries of CKH together hold one third or more of the issued share capital of HWL.
- (2) TUT1 as trustee of The Li Ka-Shing Unity Trust (“UT1”) together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one third or more of the voting power at their general meetings (“related companies”) hold interests in the shares of CKH. By virtue of the above and the interest of TUT1 as trustee of UT1 and its related companies in the shares of CKH, TUT1 as trustee of UT1 is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by Hutchison as a substantial shareholder of the Company under the SFO.
- (3) Each of TDT1 as trustee of a discretionary trust (“DT1”) and TDT2 as trustee of another discretionary trust (“DT2”) holds units in UT1. By virtue of the above and its interest of holding units in UT1, each of TDT1 as trustee of DT1 and TDT2 as trustee of DT2 is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by Hutchison as a substantial shareholder of the Company under the SFO.
- (4) Mr. Li is the settlor of each of DT1 and DT2 and may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO. Mr. Li is also interested in one third of the entire issued share capital of a company owning the entire issued share capital of TUT1, TDT1 and TDT2. By virtue of the above, Mr. Li is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by Hutchison as a substantial shareholder of the Company under the SFO.
- (5) DBS Bank Ltd. is a wholly owned subsidiary of DBS Group Holdings Limited.

THE CODE OF BEST PRACTICE

The Directors are not aware of any information which would reasonably indicate that the Company is not or was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the six months ended 30th September, 2003, except that the independent non-executive directors of the Company were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s Bye-laws.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30th September, 2003, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company’s listed securities.

By order of the Board
Loh Tiak Koon
Chief Executive Officer

Hong Kong, 29th December, 2003